

WTO AND INDIAN INDUSTRY

S. S. BHANDARE



FORUM OF FREE ENTERPRISE

PENINSULA HOUSE, 235 DR. D. N. ROAD,
MUMBAI 400 001.

"Free Enterprise was born with man and shall survive as long as man survives".

— **A. D. Shroff**

1899-1965

Founder-President

Forum of Free Enterprise

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S. S. BHANDARE*

Right since its inception on January 1, 1995, the World Trade Organisation (WTO) has been a subject of intense and often an acrimonious debate. The WTO has come to replace the General Agreement on Tariffs and Trade (GATT), which was in existence from 1948 to 1994. Along with the International Monetary Fund (IMF) and the World Bank, GATT happened to be the third pillar of the Bretton Woods System. GATT, which was a multilateral treaty, used to govern world trade in goods only, while the WTO has now acquired a much wider and ever increasing scope and coverage.

As of now, 138 countries are WTO members, with 34 observers, of which atleast 20 countries, including China and Russia, are waiting eagerly to become the WTO members. These countries account for about 95% of the world trade; the coverage will increase to 98% when China joins the WTO. All members have to sign 28 agreements arrived at the final Uruguay Round negotiations; 25 of these agreements are in the area of goods and services including GATS, TRIMs, TRIPs, Dispute Settlement, etc. All these agreements are binding on all members.

In theory, the WTO is the most democratic world organisation, with each member (whether the mighty USA or the poor Bangladesh) having one vote; decisions are taken largely based on consensus; and majority voting takes place in rare cases only. This is one of its most distinctive features in

* The author is an eminent economist and presently Consultant, Tata Services Ltd. The text is based on a presentation on the subject at a programme arranged by the Forum of Free Enterprise on 24th January 2001 in Mumbai.

comparison with the IMF and the World Bank. In practice, however, it is the Quad countries (USA, EU, Canada and Japan) with their share of about 80% of the world trade that dominate the decision-making, thanks to the lack of cohesion among developing countries. Usually, developing countries with a few exceptions, (sometimes like India or Brazil, etc.) fall in line on the pressure or inducement from developed countries. There is very often no commonality of issues among the developing countries. In this article, we seek essentially to deal with the following questions:

First, what are the objectives and the strategic framework of the WTO? Second, against the backdrop of areas of concern for Indian industry, what are the principal features of various provisions and stipulations of the WTO? Last, what is the message of the WTO for the economy in general and Indian industry in particular?

Objectives & the Strategic Framework : Before, proceeding further, a word about the drive towards globalisation. We are living in an era wherein world trade has been expanding at a pace faster than world output; capital flows are overwhelming the world trade; daily transactions in foreign exchange are manifold of the average daily world output as well as world trade; WTO regime is endeavoring to expand continuously the scope of multi-lateralism not only in trade of goods and services, but also in the areas of investment. Further, the spectacular progress in information technology is virtually transforming world financial markets into a single entity with a phenomenal increase in cross border capital flows as well as in the operation of MNCs.

In such a rapidly globalising environment, how feasible is it for the Indian economy and industry in particular, to remain unaffected? It is evident from the literature on the subject of globalisation that, "many of the countries that are insufficiently integrated with the world economy are among the poorest". The data on world trade and capital flows bear eloquent testimony of the pace of globalisation in the last few decades.

Thus, world exports rose from \$ 61 bn. in 1950 to \$ 315 bn. in 1970 to \$ 3,447 bn. in 1990 and further to \$ 5,460 bn. in 1999. In addition, trade in commercial services amounted to \$ 1,340 bn. in 1999. Over this period, the share of world exports to world output has grown from 6% to 16%. Likewise, FDI flows have increased to a record \$ 855 bn. in 1999. While, three fourths of this (\$ 636 bn.) were attracted by developed countries, some of the developing countries, especially China has been a major beneficiary in recent years. The high performing Asian economies, so also, some of the Latin American countries have consistently secured tremendous gains from dynamic and vibrant world trade and investment scenario.

More importantly, the dominance of transnational corporations (TNCs) has been driving phenomenal expansion of international production and trade. There are 63,000 TNCs at present with their 690,000 foreign affiliates. TNCs have a plethora of inter-firm arrangements spanning virtually to all countries and economic activities; they promote foreign direct investment and transfer of technology; they facilitate expansion of global exports; and they increasingly conduct cross border mergers and acquisitions. TNCs hold about \$ 2 trillion in foreign assets, employ over 6 million people and account for over 2 trillion worth of foreign sales.

It is in this context of globalisation that the WTO is committed to :

A fair, equitable, rule-based and transparent multilateral trading system; Progressive liberalisation and elimination of tariff barriers; Rejection of all forms of protectionism; and Elimination of discriminatory treatment in trade relations.

Obviously, global free trade is the corner-stone of the WTO. Consequently, it stands for reduction of both tariff and non-tariff barriers, increasing transparency, predictability and certainty. In the strategic framework of WTO, the member

countries have to expand: market access through (i) reduction and binding of tariff rates; and (ii) elimination of quantitative restrictions (QRs) and non-tariff measures. Further, it seeks to promote non-discrimination among members through: (i) Most Favoured Nations (MFN) treatment; and (ii) National Treatment.

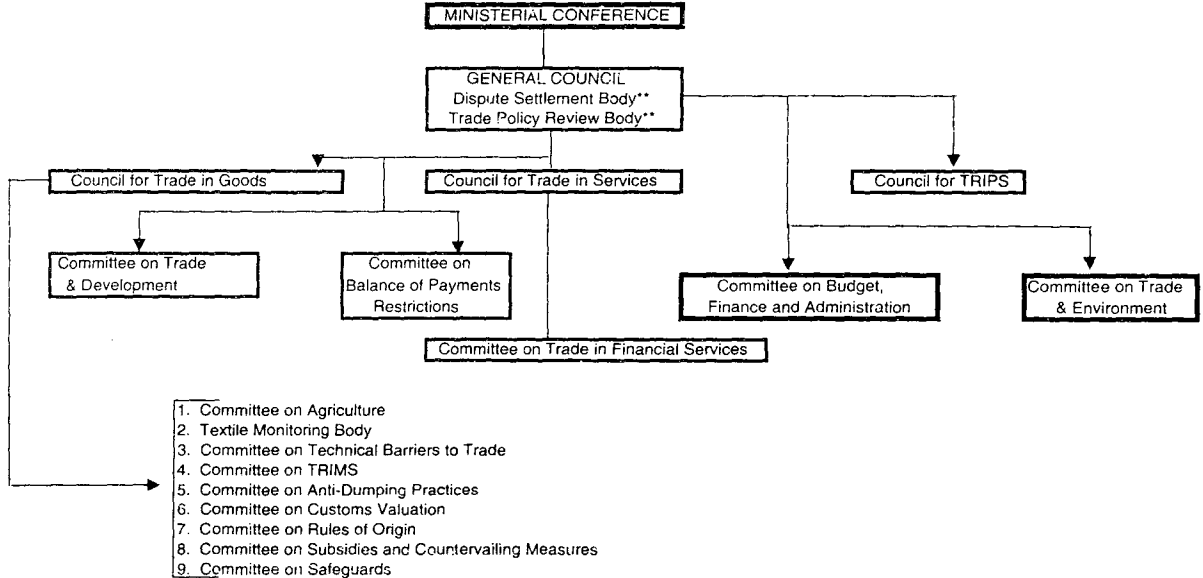
Thus, the WTO strategic framework implies that national economic policies are generally framed in conformity with international framework. It strives towards strengthening inter-relationships between trade and economic policies affecting growth and development. In substance, it seeks promotion of multilateral trading system based on agreed, effective and enforceable multilateral disciplines.

What is the WTO Mandate? Quite apart from the reduction and rationalisation of tariffs and non-tariff barriers, based on the Uruguay Round of negotiations, many significant new agreements have come into operation in such wide ranging areas as trade in services, trade related investment measures, intellectual property rights, sanitary and phyto sanitary measures, etc. In short, the WTO covers :

Trade in Goods; Trade in Services; Trade Related Investment Measures (TRIMs); Trade Related Intellectual Property Rights (TRIPs); Dispute Settlement Mechanism; and Dumping and Anti Dumping Rules, etc.

The WTO Ministerial Conference : For performing such massive tasks, the WTO has evolved its unique organisational structure. In this, the Ministerial Conference assumes immense importance. It is the highest policy-making body of the WTO dealing with several macro issues. The first biennial ministerial meet was held in Singapore in December 1996 to review the working of the WTO as well as to take up four new issues : The relationship between trade and investment; The interaction between trade and competition policy; Transparency in Government procurement; and Trade facilitation.

ORGANISATIONAL STRUCTURE OF WTO



The Ministerial Conference and all other bodies except the Textile Monitoring Body consist of the entire membership of the WTO. The membership of some of these bodies is by self-selection. The Textile Monitoring Body consists of its Chairperson and 10 other members of WTO.

** The General Council itself will meet as the Dispute Settlement Body and the Trade Policy Review Body.

The Singapore Ministerial meet also established working groups to deal with the first three issues and directed the WTO Council for Trade in Goods to handle the last issue.

The second Ministerial meet, which was held in Geneva in 1998, was more of a celebration of the fiftieth year of GATT. However, some new issues were also taken up like e-commerce, trade and environment, labour standards, fresh rounds of industrial tariff negotiations, textiles and clothing, transparency in WTO functioning, problems of developing countries, unilateral action by developed countries, etc. Besides, the ground was prepared for a comprehensive new round of talks - the Millennium Round - particularly at the instance of the EU and its allies.

The third Ministerial meet was held at Seattle in early December 1999, and was expected to discuss many crucial issues, including the preparations for the Millennium Round of negotiations. It was to review the progress on new issues raised at the Singapore meet, including the problems of less developed countries. In short, the thrust was to be on the implementation of the existing Agreements (Built-in-Agenda) as well as on some new issues, such as: (i) E-Commerce, (ii) Trade & Environment, (iii) Transparency in WTO's Work Process, and (iv) Trade and Labour, etc.

The Seattle meeting received unprecedented worldwide attention thanks to the massive anti-trade demonstrations that disrupted talks and the successful conduct of discussions and decisions on the formal agenda. The 'mobilisation against globalisation' was spearheaded by an unwieldy mix of consumer groups, labour unions, environmentalists and other activists. The WTO came to be portrayed by critics as "the power house of globalisation, seen as a malign force or even as a conspiracy". Unfortunately, however, what was not easily recognised is the fact that globalisation has become inevitable, thanks to the forces of economics, technology and international relations. Further, the present surge in global integration is essentially driven by advances in communications and computing technology.

What is the Millennium Round? : The third Ministerial meet at Seattle was expected to usher in the Millennium Round, the demand for which was first raised by the EU. Later on the USA, Canada, Japan and a large number of developing countries also supported it. Some countries like India were strategically not enthusiastic about it. India rightly felt that rather than a new round, the basic tenets of the WTO need to be properly implemented. This would require the developed countries like USA, EU, and Japan not to indulge in "neo-protectionist" practices through the route of non-tariff barriers like anti-dumping measures (countervailing duties), environmental and labour standards, etc.

The issues on which the EU desired fresh negotiations were: investment and competition, industrial tariffs, trade and environment, trade facilitation, transparency in government procurement, trade and labour standard, etc. Japan also wanted to have a fresh comprehensive package on agriculture, TRIPs, industrial tariffs, investment and technical barriers to trade, etc. Likewise, the USA sought new negotiations in areas like industrial tariffs, government procurement, transparency in the WTO procedure, involvement of civil society, trade and environment.

It is expected that the Millennium Round, as and when it eventually begins, will lay down the future road map for the WTO members; define the mandate in terms of scope and coverage; and prescribe a time-frame of future negotiations. In effect, many mandated and new issues are likely to be the subject of new negotiations:

Industrial tariffs :

- Textiles and garments;
- Agriculture;
- Trade and investment;
- Trade and competition policy;
- Government procurement;
- Trade facilitation;
- Electronic commerce;
- Transparency;
- Trade and environment;
- Labour standards;
- Trade in services;
- Intellectual property rights;
- and ● Unilateral trade measures.

Areas of Concern for Indian Industry : WTO offers both challenges and opportunities for the Indian industry. Obviously, challenges are far more serious and striking given the lack of competitive strength of Indian industries. Already, India has experienced almost a decade of market oriented reforms and many serious problems are coming to the surface :

- First, the economy in general and industries in particular are victims of high cost (both manufacturing and transaction costs);
- Second, the technology gaps of several years are too glaring. Even more worrisome are the difficulties in securing technology transfers from developed countries.
- Third, the perennial problems of infrastructure bottlenecks and the consequent constraints on global benchmarking;
- Fourth, hard core reforms (eg. exit policy, privatisation, etc.) are still politically difficult for implementation and hence, there is a virtual lack of flexibility in operations. The necessary legislative and administrative framework for dealing with problems of industrial sickness is found wanting, thereby hindering the move towards competitive industrial restructuring.
- Fifth, as a consequence, Indian products or services are not competitive in terms of price, quality and delivery schedule. Except for computer software, gems and jewellery, garments and to some extent leather and low value engineering goods, not many other Indian products are export competitive.
- Sixth, market-access in developed countries is fraught with difficulties since most of them are practice "neo-protectionism" in various forms (tariff and non-tariff barriers), back loading of MFA (multi-fibre agreement);
- Seventh, most developed countries are unreceptive to India's problems and are always demanding larger market access into India, including exhorting her to fulfil WTO compliance on many issues earlier than required;

- Eighth, India's share of world exports is a meagre 0.5% and her share of trade in world services is even less; hence, it does not command any bargaining strength in WTO level negotiations;
- Last, India's political economy is not very stable. The prevailing system of coalition governance is not conducive for prompt and effective policy changes and their implementation.

Obviously, most of these problems are of our own making and will have to be resolved by our own internal efforts. At the WTO negotiating table, we can only raise, issues applicable to global trade, which do not comply with its given provisions and conditionalities. While effective negotiations are a must, we can neither procrastinate the day of reckoning nor reverse the imperatives of WTO driven globalisation of the Indian economy.

India's Commitment to Tariff Reduction: Against this backdrop, we need to examine India's commitment to tariff reductions under the WTO stipulations. The agreed level of average trade weighted tariff reductions on industrial products by various country groups are given below. It is evident that the average tariffs the world over, are generally substantially lower than in India. Also, the commitment of developed countries to reduce their tariffs further is moderately more than other countries.

Market Accessibility Through Tariff Reduction			
{Average Tariff Rate (%)}			
	Pre Uruguay	Post Round	% Reduction
Industrial Products			
Developed Countries	6.3	3.8	40
Developing Countries	6.8	4.3	37
Less Developed Countries	6.8	5.1	25

India has committed to the following tariff reduction:

- On industrial products by 30% in 5 equal installments in five years from 1995-2000;
- On farm products by 24% in 10 years from 1995 to 2005 (as per concessions accorded to India as a poor developing country);
- The bound rate has been set at 25% to 40% for a large number of industrial products; for farm products maximum rate varies from 50% to 100%-150%; the maximum rate can go up to 300%;
- Tariff reduction for textiles and clothing is by 65%, 20%, 25% and 40% in four stages by 2005;
- India has bound rates for two-thirds of industrial products as against 73% for developing countries and 98% for developed countries;
- Over 85% of India's industrial products attract less than bound rate duties of 25% to 40%;
- The peak rate has come down from over 300 before 1991 to 42.5% (inclusive of surcharge and SAD) with average rate at around 27% (from 126% in the late 1980s). In contrast, South-East and East-Asian countries have tariff rates ranging from 10% to 30% and 6% to 14%, respectively. Thus, India's import duties are among the highest in the world.

As pressures for scaling down customs tariff are mounting, Indian industry is perceiving growing threats of intense competition. Given the prevailing high tariff structure, there will be fresh rounds of negotiations for review and reduction of tariffs. The critical issue is: how prepared is the Indian industry to face the challenges of further erosion of tariff walls?

Of course, despite tariff rates being officially lowered, most developed countries tend to have high peak rates on selected products, thereby virtually denying the market access to

products of developing countries in these areas. Illustratively, USA imposes 33% duty on watch movements, 56% on some footwears, and 79% on raw cotton; Japan imposes 160% on footwear with leather uppers and a high 370% on yogurt; one-fifth of peak tariffs of USA and one-fourth of those in EU and Japan exceed 30%. But such selective high duty rates cannot be an excuse for india's generally high customs tariffs.

Removal of Quantitative Restrictions (QRs): Since the launching of reforms in 1991, the Export-Import Policy has brought about massive liberalisation. India has already fulfilled her commitments by lifting import restrictions on a vast number of goods. Witness the progress in recent years:

- Since 1947, on 9,495 tariff lines at 6 digit levels QRs have been maintained on balance of payments ground.
- But QRs have been progressively removed since the introduction of reforms, and as such, 6,161 tariff lines were freed by March 31, 1996 and further 1,905 items by March 31, 1999.

Of the remaining 1,429 tariff lines, 714 items have been freed on March 31, 2000; and the remaining 715 will go off the list by March 31, 2001, as per the WTO stipulations. The list of 714 items freed from QRs in the latest Exim Policy modifications comprised of: (i) 58 reserved for SSI sector, (ii) 229 relating to agriculture, (iii) 37 items of textiles, and (iv) 390 items of manufactured products.

India was, of course, keen on pushing back the removal of the QRs beyond 2003, but the Dispute Settlement Body of the WTO, on the basis of US complaint ruled that India cannot justify the curbs on its imports on grounds of balance of payments. With the inevitable removal of QRs and the consequent easy market access to foreign goods, Indian industry has to equip itself well to compete and survive. No doubt, a large number of companies have initiated restructuring programmes. But the government has also to support the process of industrial restructuring through major economic policy initiatives and their effective implementation.

Trade Related Intellectual Property Rights (TRIPs): The subject of intellectual property rights or trade-related intellectual property rights (TRIPs) has always been very controversial. Intellectual Property (IP) refers to "a creation of human mind that is of value to the society, while Intellectual Property Rights (IPRs) are rights granted by the state to persons over creation of their mind". The WTO agreement on TRIPs covers nine categories of intellectual property :

- Patents;
- Plant and seed variety;
- Micro-organism;
- Copy rights and neighbouring rights;
- Trade marks, including services marks;
- Industrial designs;
- Geographical indications;
- Integrated circuits; and
- Trade secrets.

For each of these, certain norms of protection are prescribed. These norms do not necessarily have to be attained overnight. There is a transition period allowed. Legislations in most of these items are at various stages of formulation and implementation. Under the TRIPs Agreement, India has agreed to accept applications from January 1, 1995 onwards. The applications will be received in the 'mailbox' and will be examined only with effect from January 1, 2005. Further, the TRIPs Agreement also makes it obligatory for India to grant exclusive marketing rights (EMRs) to pharmaceuticals and agro-chemicals, which have been given product patents and marketing approval in another member country of the WTO. India's major concerns in the area of IPR are:

- First, granting of product patents to pharmaceuticals and agro-chemicals;
- Second, patenting of micro-organisms or life forms, including patenting of products based on our bio-diversity and traditional knowledge in other parts of the world; and
- Third, establishing an effective sui-generis system for the protection of new plant varieties, plant breeders' rights, which recognises and rewards the traditional contribution of rural communities to the conservation of bio-diversity.

The product patent systems for pharmaceuticals and agro products have already become effective from January 1, 1995. By implication, this means that Indian industry, which enjoyed the freedom of the Indian Patents Act, 1970, will not have the freedom to do reverse engineering of new patented products that come to the market sometime after 2005. It has been observed that it takes atleast 3 to 5 years for a new patented drug to come to the market. India's concern should not be on EMRs, but more on how to manage the product patent system in the future and address our public interest concerns. For this purpose, enactment of the required patents legislation complying with the provisions of the TRIPs Agreement is imperative. Besides, there is an urgent need for modernising our patent office and strengthening the manpower involved in the administration of the patent system. There are many other contentious issues such as: (i) matters relating to biological resources under TRIPs; (ii) conservation of traditional community knowledge, bio-diversity and the IPs of the community; (iii) safeguards against EMRs; and (iv) the Sui Generis systems, patenting of micro-organisms, etc.

The Patents (Amendment) Act, 1999 was expected to be ratified by the legislative process coming into force effectively from January 1, 2000. But the public opinion, as is to be expected, is sharply divided. There is an urgency of spearheading a movement towards the implementation of a national intellectual property policy. India with its tremendous potential of bio-diversity and intellectual capital will have much to gain from well-administered patents system. The threat perception about escalation in pharmaceutical product prices is surely important from the short-term point of view, but effective TRIPs will go a long way to bring in foreign direct investment (FDI) and facilitate significant R & D activity.

Trade Related Investment Measures (TRIMs) : The objective of TRIMs is to prevent member countries from resorting to measures that violate (non-differential treatment between domestic and foreign investors) and impose quantitative

restrictions on imports and exports. Towards this end, the WTO provisions explicitly prohibit the following trade-restrictive and distortive measures:

- Local Content Requirement : Mandatory use of local outputs in production.
- Trade Balancing Requirement : Imports to be maintained at a specific proportion of exports.
- Foreign Exchange Balancing Requirement : Forex made available for imports to equal a certain proportion of value of forex from exports.
- Exchange Restrictions : Free access to forex curbed, resulting in import restrictions.
- Export Performance Requirement : That certain proportion of production should be exported.

The agreement provides for transitional period for elimination of prohibited TRIMs, with effect from January 1, 1995 - two years for developed countries, five years for developing countries, and seven years for transitional and least developed economies. TRIMs is currently being renegotiated and is expected to encompass a wider scope covering issues in services and competition policy.

Before 1991, India used to have local content requirements in the form of the phased manufacturing programme (PMP). But this has now been scrapped and only exists in the form of memoranda of understanding imposed on automobile manufacturers. Export commitments exist in the form of a dividend-balancing requirement that is imposed for FDI in consumer goods. Although TRIMs are prohibited under certain conditions (Provisions of Article XVIII B), a country may use such measures. India still has such a cover and hence there is an escape clause for a temporary period. However, we will eventually have to scrap various TRIMs measures, say, by 2003.

At this stage, it is important to note that as a part of promoting global investment flows, OECD countries have been keen to take up the issue of Multilateral Agreement on Investment (MAI) in the WTO negotiations agenda. The demand of MAI seems to have been temporarily set aside, but would soon come up in some form or other. MAI will have far reaching implications as it will involve:

- Further liberalisation of foreign investment by a host country;
- Fair and equal treatment to foreign investors; and
- Legal security for investment and effective dispute settlement procedure; indeed, the definition of investments is going to be very wide to include every kind of asset owned or controlled, directly or indirectly, by a foreign investor.

Obviously, the Indian industry has to continuously monitor the likely impact of phasing out of TRIMs and the prospect of MAI eventually becoming a part of the WTO negotiations.

Non-Tariff Barriers (NTBs) and Dispute Settlement Mechanism: Most industrial countries as well as a number of developing countries use a variety of NTBs such as import-export control, certifications, standards, subsidies, anti-dumping measures/duties, etc. As a result, for a number of products, Indian exports have been denied market access in countries like USA, EU, Japan, Canada, Saudi Arabia, etc. Thus, NTBs are often used as a protectionist measure, which goes against the very spirit of the WTO mandate.

However, a country can raise these issues with the WTO Dispute Settlement Body. The WTO members have agreed that if they believe fellow members are violating the trade rules under some pretext, they will use the multilateral system for settling disputes instead of taking action on a unilateral basis. In other words, the members are required to abide by the agreed procedures and respect the judgement, that is

based on objective assessment of the situation. In fact, India has taken USA, EU, and several others to the Dispute Settlement Panel of the WTO and won the cases. At the same time, many other countries also have taken cases against India with the same panel and won. During the last 46 years till 1994, there were only 315 cases of dispute settlement under the GATT regime, but during the short period of 1995 to 1998, as many as 120 cases were brought to the WTO.

Anti-Dumping Measures : With commitment to substantial tariff reduction and much freer market access under the WTO framework, there are growing threat perceptions about dumping of products and services. Broadly speaking, if a company exports a product at a price lower than the price it normally charges in its domestic market, this is considered as 'dumping' the product. The intensity of competition from imports is expected to affect the interest of domestic producers and unfair competition can even cause serious injury to them. While Indian industry is complaining about dumping of various manufactured products like steel, soda ash, pharmaceutical products, polyester film, newsprint, etc. many other countries are registering their similar complaints about Indian products (eg. steel, cotton bed linen, polyester staple fibre, etc.) being dumped in their markets.

In this context, a country can take safeguard measures for protecting domestic industry under the provisions of anti-dumping. In India, we have created the Directorate of Anti Dumping under Director General of Foreign Trade (DGFT) to deal with anti-dumping cases. But even this revamped anti-dumping cell is inadequately equipped in comparison with many other countries. Illustratively, USA has over 1,430 officers consisting of 430 in Ministry of Commerce and 1,000 in the US International Trade Commission. The US steel industry aggressively uses its anti-dumping mechanism to prevent/delay steel imports in the USA. Even if cases are turned down, time is available to delay imports.

Apart from anti-dumping action, a country can take safeguard measures, (emergency action) to protect the domestic producers against serious injury or a threat thereof caused by the increased imports. In case of both anti-dumping and safeguard certain essential conditions on quantity of imports and extent of injury have to be fulfilled. The knowledge of the intricate complexities of rules and regulations governing anti-dumping is essential for the Indian industry to effectively protect its interest.

Subsidies : Subsidies have been one of the most contentious issues in the trade negotiations. Subsidies are considered to be distorting resource allocation and harmful to free trade. But almost all the countries of the world have been using various types of subsidies as an integral part of economic policies, either to protect income of farmers, to promote exports, or to bring about balanced regional development.

In the case of export subsidies on manufactured products, the WTO classifies them under three broad categories: prohibited, actionable and non-actionable, and all these are being described in the "traffic light term" (i.e. "red", "amber" and "green"). Red export subsidies are those that are prohibited under the WTO and therefore, actionable by trading partners. Amber export subsidies are permissible under WTO, but are none-the-less actionable by trading partners. In contrast, green export subsidies are permissible under WTO and are non-actionable by trading partners.

Example of 'red' export subsidies is the income tax exemption on export profits and concessional interest rates on export credit. Likewise, special import licenses and excessive duty drawbacks also constitute red export subsidies. Although such subsidies are prohibited there is an escape clause for India. This prohibition does not apply to countries that have per capita income lower than \$ 1,000 and India is covered under this clause. However, if in a particular product, the country is found "export competitive" in the global market - that is accounting for more than 3.25% of the world market

share of the product - such export subsidies have to be phased out regardless of whether the per capita income is more or less than \$ 1,000. In the case of India, for example, gems and jewellery will disqualify for export subsidies and perhaps these will have to be phased out in eight years, i.e. by 2003.

While, on this subject, other major area relates to the treatment of subsidies under the Agreement on Agriculture. Here too, green box measures, which are perceived to cause minimal distortive effect on trade (eg. R & D, pest and disease control, domestic food security, environmental assistance, disaster relief, etc.) are non-actionable. Likewise, even blue box measures comprising of direct payment under production limiting programmes (eg. income support to farmers, structural adjustment assistance, safety net, etc.) are usually not subject to reduction commitment under WTO framework. In contrast, amber box measures (eg. government buying at a guaranteed price, market price support, etc.) are seen to be trade distorting and, therefore, subject to reduction commitment.

In the context of WTO framework, India will have to redesign its subsidies whether for exports or for agriculture. Practically, each and every country offers subsidies to subserve its respective socio-economic objectives. Surely, India cannot be an exception. Thus, while proposing to phase out some of the export benefits (Section 80 HHC under the Income Tax Act), and reviewing the measurement of support for agriculture, our policy makers need to think in terms of alternative measures that are WTO compatible. India's problems are primarily on account of fiscal burden of subsidies and here too we need a far more careful evaluation of non-merit (and hidden) subsidies rather than scaling down merit subsidies which contribute towards our developmental objectives.

Concluding Observations - Message to Indian Industry :

This article obviously cannot deal with the all-pervasive scope and coverage of the WTO. We have sought to highlight many crucial issues. But many others like General Agreement of Trade in Services (GATs), Multi-Fibre Agreement (MFA) dealing

with phasing out of the export quota structure of textiles and clothing products, sanitary and phyto-sanitary measures, et al have not been commented upon. The objective here is essentially to provide a glimpse of the WTO and its strategic framework.

Surely, we have been a witness to rapid spread of influence of the WTO and the consequential forces of globalisation. The major challenges before industry is to accept the inevitable and vigorously work towards exploiting opportunities likely to be unleashed by globalisation. Undoubtedly, the WTO will impact each and every business, and each and every aspect of various businesses. Having said this, let us recognise the combination of a few crucial 'positives' and 'negatives' of the new WTO scenario:

- First, the WTO is for transparency of policies, rules and procedures and for multilateral conformism. It is not for insular and protected economic, trade and investment regime.
- Second, the WTO is for greater and greater market access; it is not for import restriction or import substitution.
- Third, the WTO does not believe in mere focus on export orientation, but is consistently and passionately seeking outward orientation in economic policies of member countries.
- Fourth, the WTO is not for unrestrained or imprudent use of capital resources in the development strategy, but for deploying capital on the basis of comparative and competitive advantage of nations.
- Fifth, the WTO is not for subsidies, but for wider and effective use of pricing mechanism for allocation of resources domestically and globally.
- Sixth, the WTO is for internal deregulation serving to compliment the process of trade and investment liberalisation.

- Seventh, the WTO is for promoting climate for FDI flows based on undistorted trade and investment regime; it is not for substitution of trade by investment being protected through tariffs and restrictive import licensing system.
- Last, the WTO is for competition and globalisation. Therefore, member countries are under compulsions to observe critical macro level disciplines - be it fiscal stability, be it price stability or be it exchange rate management. Consequently, it is not for soft options, be it high tariffs, be it QRs, be it subsidies or be it lack of transparency in the policies, procedures and rules governing trade and investment.

Having said this, there invariably will be proponents and opponents of both the WTO and globalisation. It is no one's case that commitment to the goals of WTO alone will deliver growth and prosperity across the world, leave alone in India. The ultimate aim of all these global and domestic efforts is to expand domestic wealth and ensure trickling down of prosperity for the betterment of material lot of millions of our own people. The WTO happens to be an on-going process, and Indian industry has to be ever vigilant to respond to the challenges in a more positive and proactive way with the support and co-operation of our own policy makers.

Finally the Fourth Ministerial round, which is scheduled to be held in early November 2001 at Doha, Qatar, would send more definite indicators of the shape of things to come.

The views expressed in this booklet are not necessarily those of the Forum of Free Enterprise.

"People must come to accept private enterprise not as a necessary evil, but as an affirmative good".

— Eugene Black

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